



**ANNUAL REPORT TO MEMBERSHIP
JUNE 30, 2017
City of Farmington Hills Employees' Retirement System**

Dear Member:

The year ended June 30, 2017 marked the 51st year of operation for the Employees' Retirement System, which began operation on January 1, 1966. The System provides defined pension benefits for its members and their beneficiaries. The administration of the System, outlined in the City's Retirement Ordinance, is vested with the City of Farmington Hills Retirement Board. This responsibility includes the management of the System's assets, establishing operating policies and procedures, adoption of by-laws and granting of pension benefits in conformity with the existing Retirement Ordinance and labor contracts. Any conflict between statements in this Report and the official documents will be governed by those documents.

All expenses of operating the System are paid for by the Retirement System. No soft dollars are used to pay expenses in this System. The dollars needed to finance retirement benefits are accumulated through the collection of employer and employee contributions combined with the income earned on investments.

The Retirement System continues to be in very good financial and actuarial condition. On behalf of the Farmington Hills Retirement Board, I have summarized below, some of the pertinent facts and results of operation of the Retirement System for the year ended June 30, 2017, including audited financial information, a listing of administrative and investment expenses, a summary of benefits and options, and a summary of the actuarial valuation report and investment results. If you have any questions regarding the pension plan, please call me at (248) 871-2446 or extension 2446.

Respectfully submitted,

Steve Barr
Administrative Officer/Secretary/Treasurer

Statement of Fiduciary Net Position
June 30, 2017

Assets

Cash and cash equivalents	\$ 7,464,008
Investments (Note 3):	
Common stock	54,666,277
Pooled funds	87,743,776
Accrued interest, dividends, and other receivables	<u>87,918</u>
Total assets	\$149,961,979

Liabilities

Accounts payable	147,240
Due to primary government	20,789
Due to Post-Retirement Healthcare Finance Fund	<u>214,000</u>
Total liabilities	<u>382,029</u>

Net Position Restricted for Pensions **\$ 149,579,950**

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2017

Additions

Investment income:	
Interest and dividends	\$ 2,256,168
Net change in fair value of investments	15,825,929
Investment expense	<u>(1,202,816)</u>
Net investment income	16,879,281

Contributions:

Employer	4,710,485
Employee	<u>914,378</u>

Total contributions 5,624,863

Total additions - Net 22,504,144

Deductions

Pension payments	10,826,626
Contributions returned to employees	<u>38,375</u>

Total deductions 10,865,001

Net Increase in Net Position Held in Trust 11,639,143

Net Position Restricted for Pensions - Beginning of year 137,940,807

Net Position Restricted for Pensions - End of year **\$ 149,579,950**

**Administrative and Investment Expenses
Year Ended June 30, 2017**

<u>Administrative Expenses:</u>	<u>Amount</u>	<u>Prior Year</u>	<u>\$ Change</u>	<u>% Change</u>
Accounting Services	\$ 57,230	\$ 57,811	\$ (581)	
Actuarial Fees	36,990	28,129	8,861	
Custodial Fees	36,122	35,339	783	
Administrative Services	15,928	15,307	622	
Fiduciary Insurance	14,487	13,971	516	
Audit Fees	7,379	10,690	(3,311)	
Professional Training/Education & Travel Expenses	13,890	9,464	4,426	
Legal Fees	5,980	20,703	(14,723)	
Dues and Memberships	1,245	1,621	(376)	
Retirement Luncheon for Employees	854	0	854	
Secretarial Fees	0	675	(675)	
Supplies	153	108	44	
Total Administrative Expenses	190,259	193,817	(3,559)	-1.84%
<u>Investment Expenses:</u>				
Money Manager Fees - Employees' Retirement System	913,114	958,820	(45,706)	-4.77%
Investment Advisory Fees - Employees' Retirement System	99,442	97,161	2,281	2.35%
Total Investment Expenses	1,012,556	1,055,981	(43,425)	-4.11%
TOTAL ADMINISTRATIVE AND INVESTMENT EXPENSES	\$1,202,815	\$1,249,798	\$ (46,983)	-3.76%

**Budget Report
2017/18 Fiscal Year**

Administrative Expenses:

Accounting Services	\$ 61,000
Actuarial Fees	23,000
Custodial Fees	36,000
Administrative Services	16,000
Fiduciary Liability Insurance	15,000
Audit Fees	7,600
Professional Training/Education & Travel Expenses	34,100
Legal Fees	15,000
Dues & Memberships	1,700
Supplies	125
Total Administrative Expenses	<u>209,525</u>

Investment Expenses:

Money Manager Fees	950,000
Investment Advisory Fees	<u>117,000</u>
Total Investment Expenses	<u>1,067,000</u>
Total Administrative and Investment Expenses	<u>\$ 1,276,525</u>

BENEFIT TABLE

SUMMARY OF BASIC PENSION BENEFITS
STRAIGHT LIFE (NO SURVIVOR BENEFIT)

<u>ELIGIBILITY</u>	<u>MULTIPLIERS</u>		
	<u>up to 25 yrs</u>	<u>Over 25</u>	<u>Max*</u>
<u>BENEFIT GROUP A-AFSCME</u> Sum of age and service equals 80 (minimum age 55) or age 60 with 8 years of service. Plan closed to new hires after July 1, 2006.	2.80%	1.00%	75%
<u>BENEFIT GROUPS G-GENERAL, J-COURT, T-TEAMSTERS</u> Sum of age and service equals 80 (minimum age 55) or age 60 with 8 years of service. Plan closed to new hires in General Group after July 1, 2006. Plan closed to new hires in Teamsters after January 1, 2008. Plan closed to new hires in Court Group after September 1, 2015	2.80%	1.00%	80%
<u>BENEFIT GROUP EXECUTIVE</u> Sum of age and service equals 80 (minimum age 55) or age 60 with 8 years of service. Plan closed to (City Executive) new hires after July 1, 2006. Plan closed to (Court Executive) new hires after September 1, 2015	3.00%	1.00%	80%
<u>BENEFIT GROUP D-DISPATCHERS</u> Sum of age and service equals 80 (minimum age 55) or age 60 with 8 years of service. Plan closed to new hires after January 1, 2007.	Until age 67 At age 67 2.65% 2.375%	1.00% 1.00%	70% 70%
<u>BENEFIT GROUP F-FIREFIGHTERS</u> Hired Prior to July 1, 2008 25 years of service regardless of age . New hires after July 1, 2008: Minimum Age 50 with 25 years of service.	2.80%	1.00%	75% 60%
<u>BENEFIT GROUP C-POLICE COMMAND</u> Minimum Age 50 with 25 years of service, or 30 years of service regardless of age with a minimum of 25 years as sworn Police Officer.	3.00%	1.00%	80%
<u>BENEFIT GROUP P-POLICE OFFICER</u> Hired Prior to January 1, 2008 25 years of service regardless of age. New hires after January 1, 2008: Minimum Age 50 with 25 years of service.	2.80%	1.00%	75% 60%

* Maximum benefit is computed as the indicated % of Final Average Compensation.

FINAL AVERAGE COMPENSATION (FAC) CONSISTS OF THE 3 HIGHEST CONSECUTIVE YEARS, AS OF JULY 1st, OUT OF THE LAST 10 YEARS. FAC INCLUDES LONGEVITY ON BASE PAY FOR ALL EMPLOYEES PLUS LUMP SUM HOLIDAY PAY FOR POLICE, FIRE AND DISPATCH MEMBERS.

RETIREMENT SYSTEM PENSION ESTIMATE

Your Final Average Compensation
Base Pay Holiday Longevity = TOTAL COMP.

Year 1 _____

Year 2 _____

Year 3 _____

TOTAL _____

Divide by 3 = _____
Final average compensation (F.A.C.) (A)

Service Credits

Years of Full Time Service X .0225, .02375, .0265, .028, .030 (multiplier)
(up to 25 yrs. Max.) Select percentage from table on previous page.

Years _____ X _____ = _____

Additional Years _____ X .01 = _____

Total _____ 60%, 70%, 75%, or 80% maximums may apply.

(B) Please refer to the benefit table.

STRAIGHT LIFE PENSION: _____
(A) X (B) = ANNUAL PENSION

EARLY RETIREMENT

The Early Retirement Benefit is actuarially reduced from Normal Retirement Age.

General Employee	Age 57 with 8 years of service.
Patrol/Fire Employee	Age 50 with 20 years of service.
Police Command Employee	Age 50 with 15 years of service or <50 years with 25 years of service as sworn Police Officer.

System Member is eligible for a Deferred Retirement Benefit (Vested Benefit) if a General Employee has 8 or more years of service (benefit begins at age 60) or a Police/Fire Employee has 15 or more years of service (benefit begins at age 55).

DUTY DISABILITY

In addition to the Normal, Early and Deferred Retirement provisions, the System provides for Duty Disability benefits to qualifying members.

DEATH-IN-SERVICE

A pension (survivor option A) shall be paid for life to the surviving spouse provided the member attained age 57 and has 8 years of service or the member has 10 or more years of credited service regardless of age and died while an employee of the City.

RETIREMENT BENEFIT OPTIONS

Prior to retirement, but not thereafter, a member may elect to receive a retirement benefit by one of the following four methods:

1) **STRAIGHT LIFE RETIREMENT BENEFITS**

This allowance is a benefit payable to the member throughout his/her life. This is a non-survivor benefit and terminates upon the death of the member.

2) **SURVIVOR ALLOWANCE OPTIONS**

Under three available options, a retiree receives a reduced Straight Life Benefit, payable for life. Upon death, the reduced pension benefit will continue to be paid throughout the beneficiary's life at the percentage option selected. The reduction of Straight Life Benefit is actuarially determined based on the ages of the member and his/her beneficiary at the time of retirement and the percentage option of primary benefit chosen. A greater reduction of Straight Life Benefit will be made to provide 100% of the Primary Pension Benefit than 75% or 50%. The Survivor Allowance Options are:

- Option A - 100% of Primary Pension Benefit
- Option B - 75% of Primary Pension Benefit
- Option C - 50% of Primary Pension Benefit

Should the named survivor beneficiary die before the retired member, the retired member's pension shall be recomputed (pop-up) to a Straight Life Pension.

3) **ANNUITY OPTION**

All City and Court employees are eligible for the annuity option.

4) **MEDICAL BENEFITS**

Medical Benefits are available for all qualifying retirees. Since age and service requirements, the amount of monthly premium covered, and the effective date of coverage vary between bargaining groups, check with Human Resources or the Finance Department for your respective coverage.

SUMMARY OF ACTUARIAL VALUATION

An Actuarial Valuation of the Retirement System and Retiree Health Plan, performed by Gabriel, Roeder, Smith & Company, involves the computation of the present value of future benefits to be paid by the System as well as the present value of future income of the System. These present values, when related to the assets currently held by the System, provide the actuary with the basis for computing the future contributions, which will be required of the employer to keep the System on a sound actuarial basis.

Actuarial Cost Method:

Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

- (i) the annual normal costs for each individual active member, payable from the hire date to the date of retirement, are sufficient to accumulate to the value of the member's benefit earned.
- (ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

For the groups that have the tiered benefit structure (Police Patrol and Fire), the new benefit tier is used to determine the normal cost. The Actuarial Accrued Liability is then determined by subtracting the present value of future normal costs.

Asset Valuation or Smoothing Method:

The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed five year period.

INVESTMENTS

The goal of the System is to provide present and future retirement or survivor benefits for its members. Since investment income is a vital link to funding these benefits, the System's portfolio is managed by the following general policies:

1. Preservation of the principal value of the Plan.
2. Diversification of the portfolio to minimize volatility, market risk, and to maximize total rate of return.
3. Meet, with a high degree of probability, the assumed actuarial rate of return of 7.4% over a five-year period.
4. Provide a real rate of return of 3.9% (rate of return must exceed the C.P.I. by 3.50%).
5. Achieve funding of vested pension benefits within the time period in which unfunded liabilities are amortized by actuary.

Investments at June 30, 2017 consisted of 56% Equities, 19% Fixed Income (Bonds), 23% Alternative Investments (Hedge Funds/Real Estate/Private Equity), and 2% Cash.

In order to diversify the portfolio, the Retirement Board retained nine equity managers:

1. Loomis Sayles & Co. - which employs a value investment policy.
2. Hamlin - which employs a dividend paying strategy.
3. Seizert - which employs a large cap core strategy.
4. Reinhart Partners - which employs an All Cap strategy.
5. Lazard - which employs an international emerging markets investment approach.
6. Edgewood - which invests in growth companies it deems to be of high quality.
7. Vanguard Russell - which is a passive investment vehicle that tracks the stocks that make up the Russell 2000 Small Cap Index.
8. Vanguard Developed Markets - which is a passive investment that tracks the performance of the FTSE Developed Market Index and includes developed countries outside the US located in Canada, the major markets of Europe, and the Pacific region.
9. Cambiar - which is designed to identify compelling international investment opportunities that possess the desired combination of attractive valuations and potential for multiple expansion.

The Board retained five fixed income managers:

1. Loomis Sayles & Co.
2. PIMCO
3. JP Morgan
4. Franklin Templeton
5. Bloomberg Barclays

The Board retained eight private equity alternative investments:

1. Townsend
2. Penn Square
3. Corbin Pinehurst
4. Entrust
5. Entrust III
6. Blackstone
7. McMorgan
8. Goldman Sachs

The remainder of the portfolio is comprised of cash. For 2017, the retirement system portfolio posted a net investment income of 12.2%.

**Summary from Actuarial Valuation Reports
Year Ended June 30, 2017**

<u>Retirement System:</u>	General	Court	Police	Fire	Total	Prior Year	Change from Prior Year
Membership	Closed	Closed	Open	Open	-	-	-
Funded Ratio*	86%	89%	81%	83%	84%	85%	-1.00%
Number of Active Members	94	23	101	51	269	277	(8)
Number of Retirees/Beneficiaries	N/A	N/A	N/A	N/A	307	293	14
Total Annual Pensions Paid	N/A	N/A	N/A	N/A	\$9,364,203	\$8,827,068	\$537,135
Average Annual Pension Paid	N/A	N/A	N/A	N/A	\$30,502	\$30,127	\$375
Total Annual Valuation Payroll	N/A	N/A	N/A	N/A	\$20,089,578	\$20,046,105	\$43,473
City's Normal Cost \$ or % ***	\$683,768	\$159,316	14.87%	15.53%	N/A	N/A	N/A
City's Annual Required Contribution	\$1,782,993	\$223,426	\$1,927,481	\$776,585	\$4,710,485	\$4,710,931	N/A
City's Annual Required Contribution as a % of valuation payroll	8.88%	1.11%	9.59%	3.87%	23.45%	23.50%	0.05%
Employee Contribution Rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	0.00%
Actuarial Assumed Rate of Investment Return	7.40%	7.40%	7.40%	7.40%	7.40%	7.50%	-0.10%
Actuarial Assumed Rate of:							
Long-term Wage Inflation	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	0.00%
Health Care Inflation	3.5%-9%	3.5%-9%	3.5%-9%	3.5%-9%	3.5%-9%	3.5%-9%	0.00%
Amortization Method Used:	Level \$	Level \$	Level % of Payroll	Level % of Payroll	-	**	-
Amortization Period Used**	10 Years	13 Years	26 Years	26 Years	-	**	**
Amortization Smoothing Method Used	5 Year	5 Year	5 Year	5 Year	5 Year	5 Year	-
<u>Investment Performance</u> (net of fees)	Trailing <u>1 Year</u>	Trailing <u>3 Years</u>	Trailing <u>5 Years</u>	Trailing <u>7 Years</u>	Trailing <u>10 Years</u>		
	12.98%	3.51%	7.74%	8.26%	5.62%		

* From Actuarial Valuation Report.

** Closed Amortization Period, reduced 1 year for each actuarial valuation.

*** A level dollar amortization method was used for the General and Court groups, due to the closure of these groups to new employees. A level percent of payroll amortization method was used for the Police and Fire groups due to the open nature of these groups.

RETIREMENT BOARD MEMBERS

(as of June 30, 2017)

3 Year Term Expires December 31

Lauri Siskind, Chairperson

Citizen Member
Term Expires 2019

Eric Gould, Vice Chairperson

Citizen Member
Term Expires 2017

Doug Muller

Police/Fire Member
Term Expires 2018

James Knittel

Police/Fire Member
Term Expires 2017

Mark Saksewski

General Employee Member
Term Expires 2017

Kevin McCarthy

General Employee Member
Term Expires 2018

Dave Gajda

Administrative Officer
Secretary-Treasurer
Ex-Officio Member

INDEPENDENT AUDITORS

Plante & Moran, CPAs

ACTUARY

Gabriel, Roeder, Smith & Company

INVESTMENT MANAGERS

BC Aggregate
Blackstone Tactical Opportunities
Cambiar
Corbin Capital
Edgewood
Entrust
Goldman Sachs
Hamlin Capital
J.P. Morgan
Lazard
Loomis, Sayles & Company
McMorgan Infrastructure
Penn Square
PIMCO
Reinhart Partners
Seizert
Templeton Global
Townsend
Vanguard

INVESTMENT PERFORMANCE

ADVISORS

Graystone Consulting

ATTORNEY

VanOverbeke, Michaud & Timmony, P.C.

CUSTODIAN

Wells Fargo

PENSION ACCOUNTANT

Susan Hardy

CITY COUNCIL LIAISON

Theresa Rich

FOR FURTHER INFORMATION CONTACT:

Steve Barr, Administrative Officer/Secretary/Treasurer (effective July 17, 2017)
31555 W. 11 Mile Road
Farmington Hills, Michigan 48336-1165
(248) 871-2446